

SYN. NO. _____

AGN. NO. _____

MOTION BY SUPERVISOR ZEV YAROSLAVSKY

November 28, 2006

On September 21, 2004, this Board approved the sale of surplus County-owned property located at 5026 Santa Monica Boulevard to Hollywood Community Housing Corporation (HCHC) for the property's fair market value of \$1,500,000 so that HCHC could build a mixed-use, affordable rental housing complex, at least 80% of which would be guaranteed affordable to very-low income families for at least 55 years. The County granted HCHC a short-term loan secured by a deed of trust in the amount of \$1,495,000 at seven percent annual interest, with the due date to be extended to January 23, 2007 pursuant to this Board's motion dated September 26, 2006. The September 26, 2006 motion also required that the note extension include a statement that the Option agreement and Sale and Purchase agreement remain unchanged and in full force and effect. As of the end of November 2006, accounting for accrued interest, the loan balance is \$1,733,390.

That sale was conditioned upon HCHC securing all required financial approvals and building entitlements within two years. However, due to increased construction costs, HCHC has determined that the project is nearly 30% more expensive to build than originally projected. Although HCHC's other development partners on this project, including the City of Los Angeles Housing Department, have agreed to increase their

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financing commitment, HCHC still has a gap of \$2.0 million between financing committed and actual development costs.

In order to allow the project to proceed in light of these increased costs, the County can convert the existing loan into a residual receipts mortgage which would be secured against the property at three percent interest for a 55 year term. Such conditions are typical for these types of redevelopment loans, and fall under the authority provided to the county by Government Code Section 26227. The Restrictive Covenant and other guarantees of affordability recorded against the property shall continue to be in full force and effect except as provided for below.

I, THEREFORE, MOVE that the Board of Supervisors:

1. Find that the substitution of the existing mortgage and promissory note for a residual receipts mortgage does not constitute a project under the California Environmental Quality Act (CEQA) and the Los Angeles County Revised Environmental Document Reporting Procedures and Guidelines and therefore does not require any environmental review as provided for under CEQA.
2. Find that the property is not, and during the time of possession, will not be needed for County purposes and that development of this property in the manner described above is in the County's best interest and will serve public purposes.
3. Find that the development of this property in the manner described above is in the County's best interest and will serve public purposes.
4. Authorize the Chief Administrative Officer (CAO), in conjunction with the Community Development Commission, to enter into a promissory note (Note) in the amount of \$1,733,390 at three percent annual interest for a 55 year period

mandating annual residual receipts payments. The Note is to be secured by a deed of trust recorded against HCHC's interest in the project and requires that at least 80% of the housing constructed will be affordable to families of very low incomes. Annual residual receipt payments shall be equivalent to the amount by which "gross rents" (as defined by the aforementioned Note) for the residential portion of the project exceed the "operating expenses" for the residential portion of the project. The CAO shall also have the authority to negotiate the percentage of residual receipts to be payable to the County. Any and all unpaid balances, including any remaining principal and accrued interest, due under the terms of the Note shall be due and payable at the end of the term of the Note.

5. Upon execution of the residual receipt mortgage, authorize the CAO to execute a recordable reconveyance document indicating that the original loan has been paid in full and cancel the Option Agreement, if approved by County Counsel, and amend the Sale and Purchase Agreement to the extent required to effectuate this transaction as approved by County Counsel.
6. Authorize the CAO to negotiate, and instruct the Mayor, upon presentation, to execute a mortgage subordination agreement with a construction lender(s) and permanent lender(s) for the purpose of allowing the lenders to finance the construction of the project without the existing Note or restrictive covenant requirements (that 40 percent and 20 percent of the housing units constructed be affordable to families earning 75 and 60 percent of area median income, respectively), in exchange for the lender's agreement that in the event of foreclosure, 100 percent of the housing units constructed will be affordable to families earning 80 percent of area median income. The County will only enter

into this subordination agreement so long as HCHC is not in default of the terms of any agreements entered into with the County and the County approves all terms and conditions of the construction loan, the permanent loan and the subordinations. The County will have the right to cure the borrower's defaults under these loans in order to protect its interest in the Residual Receipts Mortgage.

7. Instruct the Auditor-Controller to deposit all of the proceeds generated by this transaction into a Special Account as directed by the Housing Authority of the County of Los Angeles to be used for development of affordable housing projects within the Third Supervisorial District.
8. Authorize the CAO to negotiate and approve on behalf of the County any other related documents or agreements required to allow HCHC to meet the conditions originally imposed by the County, including the reconveyance of any portion of the Residual Receipts Mortgage debt secured against any portion of the property subdivided for the sole purpose of commercial development, subject to approval by County Counsel.

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